

In the Matter of the Acquisition)	
of NATIONAL MERIT INSURANCE,)	NO. G 2003-104
COMPANY by)	NOTICE OF HEARING
RESPONSE INSURANCE COMPANY)	
)	
Licensee.)	

TO: Scott A. Kallander
General Counsel
Unigard Insurance Group
15805 N.E. 24th Street
Bellevue, WA 98008

David I. Schonbrun
Deputy General Counsel
Response Insurance
500 South Broad Street
Meriden, CT 06450

August P. Alegi
Vice President, General Counsel & Secretary
Direct Response Corporation
500 South Broad Street
Meriden, CT 06450

COPY TO: Mike Kreidler, Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
James T. Odiorne, Deputy Commissioner, Company Supervision Division
Carol Sureau, Deputy Commissioner, Legal Affairs Division
James E. Tompkins, Assistant Deputy Commissioner, Company
Supervision Division
Office of Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

NOTICE OF HEARING

December 8, 2003

Page 2

National Merit Insurance Company (National Merit) is a domestic Washington stock insurer. National Merit holds Washington Certificate of Authority No. 1278. National Merit is a subsidiary of Unigard Insurance Company. Unigard Insurance Company is wholly owned by Unigard Inc., a Washington holding company. Winterthur U.S. Holdings, a Delaware holding company, owns 100% of the outstanding shares of Unigard Inc. Winterthur Swiss Insurance Company, a Swiss insurance corporation, owns Winterthur U.S. Holdings.

Response Insurance Company is a Delaware insurance company. Response Insurance Company is a wholly owned subsidiary of Direct Response Corporation. Direct Response Corporation is a Delaware corporation and an insurance holding company.

Response Insurance Company has filed an application with the Insurance Commissioner for approval of its proposed acquisition of all of the issued and outstanding shares of National Merit's capital stock. Said purchase will result in the acquisition of National Merit by Response Insurance Company and a change of control of National Merit.

Pursuant to RCW 48.31B.015(1) and (2), Response Insurance Company has filed a preacquisition notification with the Insurance Commissioner (Form "A" Statement Regarding the Acquisition of Control of a Domestic Insurer), which shall be entered as evidence herein, which 1) includes the substantial information and agreements concerning this proposed acquisition required in RCW 48.31B.015(2) and in accordance with RCW 48.31B.020(3)(a); and which 2) includes information and agreements relative to the issues which must be the subject of findings pursuant to RCW 48.31B.015(4).

Pursuant to RCW 48.31B.015(4), the Insurance Commissioner shall approve an acquisition of a domestic insurer unless, after a public hearing thereon, it is found: 1) that after the change of control, the domestic insurer would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed; 2) that the effect of the acquisition of control would be substantially to lessen competition in insurance in this state or tend to create a monopoly therein; 3) that the financial condition of an acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders; 4) that the plans or proposals that the acquiring party has to liquidate the insurer, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest; 5) that the competence, experience, and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the acquisition or control; or 6) that the acquisition is likely to be hazardous or prejudice to the insurance-buying public.

NOTICE OF HEARING

December 8, 2003

YOU ARE HERBY NOTIFIED that a hearing will be held commencing at 9:00 a.m. on Thursday, December 18, 2003, in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501, to consider the acquisition of National Merit by Response Insurance Company.

The hearing will be held under the authority granted the Insurance Commissioner by Chapter 48.04 RCW and RCW 48.31B.015, and shall have as its purpose consideration of the above identified criteria and entry of a final decision regarding approval of this proposed acquisition.

The Insurance Commissioner has not taken, and will not take, any position on this matter prior to entry of the Findings of Facts, Conclusions of Law and Final Order to be entered after hearing.

YOU ARE FURTHER NOTIFIED that all comments on, or objections to, this proposed acquisition must be submitted 5:00 p.m. on December 17, 2003. Said comments or objections must be submitted to the undersigned by fax, U.S. Mail, or personal delivery. The fax number of the undersigned is (360) 664-2782, and her address is 5000 Capitol Boulevard, Tumwater, Washington 98501. Further, pursuant to RCW 48.31B.015(4)(b), any person whose significant interest is determined by the Insurance Commissioner to be affected may present evidence, examine and cross-examine witnesses, and offer oral and written arguments and in connection therewith may conduct discovery proceedings in the same manner as is allowed in the superior court of this state.

Finally, all parties may participate in the hearing. They may examine witnesses and fully respond and present evidence and argument on all issues involved, as required by the Administrative Procedure Act. The hearing will be governed by the Administrative Procedure Act, Chapter 34.05 RCW, and the model rules of procedure contained in Chapter 10-08 WAC. A party who fails to attend or participate in any stage of the proceeding may be held in default in accordance with Chapter 34.05 RCW.

The Insurance Commissioner will be represented by James E. Tompkins, Assistant Deputy Commissioner in his Company Supervision Division. He can be reached at (360) 725-7218. National Merit will be represented by Scott A. Kallander, General Counsel of Unigard Insurance Group. He can be reached at (425) 945-5307. Response Insurance Company will be represented by an officer or corporate counsel with Response Insurance Company or Direct Response Corporation. These individuals can be reached at (203) 634-7253.

NOTICE OF HEARING

December 8, 2003

Page 4

Based upon a delegation of authority from the Insurance Commissioner, the undersigned will conduct the hearing and will make the final decision and enter the final order relative to this matter. Her address is Office of the Insurance Commissioner, P.O. Box 40255, Olympia, WA 98504-0255 and her telephone number is (360) 725-7105. All questions or concerns should be directed to Victoria S. Meyer, Administrative Assistant to the undersigned, at (360) 725-7263 or at the above address.

Pursuant to WAC 10-08-040(2) and in accordance with ch. 2.42 RCW, if a limited English-speaking or hearing impaired or speech impaired party or witness needs an interpreter, a qualified interpreter will be appointed. There will be no cost to the party or witness therefore, except as may be provided by ch. 2.42 RCW. Following this Notice is a form you may use to advise the Chief Hearing Officer of your need for an interpreter.

ENTERED at Olympia, Washington, this 8th day of December, 2003, pursuant to Title 48 RCW and specifically RCW 48.31B.015, Title 34 RCW, and regulations applicable thereto.

PATRICIA D. PETERSEN

Presiding Officer
Chief Hearing Officer